

**Waldron Area Schools**

**Waldron, Michigan**



**FINANCIAL STATEMENTS**

**For The Year Ended  
June 30, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

# WALDRON AREA SCHOOLS

For the Year Ended June 30, 2008

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## **INDEPENDENT AUDITORS' REPORT**

October 31, 2008

Board of Education  
Waldron Area Schools  
Waldron, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **WALDRON AREA SCHOOLS**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Waldron Area Schools, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2008, on our consideration of Waldron Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waldron Area Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in Note E to the financial statements, fund balance of the general fund and net assets were restated for accrued interest on a note.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## Management's Discussion and Analysis

As management of Waldron Area Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

### Financial Highlights

- ▶ The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,080,579 (*net assets*). Of this amount, \$126,685 (*unrestricted net assets*) may be used to meet the government's ongoing obligations for district programs.
- ▶ The government's total net assets decreased by \$105,707 from the prior year.
- ▶ As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$189,668 a decrease of \$65,844 in comparison with the prior year. Approximately \$178,158 is *available for spending* at the government's discretion (*unreserved fund balance*).
- ▶ At the end of the current fiscal year, unreserved fund balance for the general fund was \$100,697 or 3% of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics and other service. The District has no business-type activities as of and for the year ended June 30, 2008.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided here in to demonstrate compliance with those budgets.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,080,579 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

<b>District's Net Assets</b>		<b>Governmental Activities</b>	
		<b><u>2006-2007</u></b>	<b><u>2007-2008</u></b>
Current and other assets		\$ 1,103,941	\$ 1,059,967
Capital assets, net		<u>1,194,175</u>	<u>1,136,319</u>
Total assets		2,298,116	2,196,286
Long-term liabilities outstanding		298,002	263,949
Other liabilities		<u>795,326</u>	<u>851,758</u>
Total liabilities		1,093,328	1,115,707
Net assets:			
Invested in capital assets, net of related debt		954,675	934,719
Restricted		34,824	19,175
Unrestricted		<u>215,289</u>	<u>126,685</u>
<b>Total net assets</b>		<b><u>\$ 1,204,788</u></b>	<b><u>\$ 1,080,579</u></b>

An additional portion of the District's net assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* may be used to meet the government's ongoing obligations to its programs.



At the end of the current fiscal year, the District was able to report positive balances in the four categories of net assets, both for the government as a whole, as well as for its separate governmental-type activities.

The government's net assets decreased by \$105,707 during the current fiscal year.

<b>District's Changes in Net Assets</b>		
	<b><u>Governmental Activities</u></b>	
	<b><u>2006-2007</u></b>	<b><u>2007-2008</u></b>
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 73,185	\$ 68,087
Operating grants and contributions	297,234	392,716
General revenue:		
Property taxes	306,557	330,589
State school aid	2,536,187	2,434,844
Other	<u>7,489</u>	<u>9,415</u>
<b>Total revenue</b>	<b><u>3,220,652</u></b>	<b><u>3,235,651</u></b>
<b>Expenses:</b>		
Instruction	1,915,896	1,897,947
Support services	963,352	1,075,952
Athletics	101,270	102,509
Food services	148,989	153,904
Other functions	40,800	14,147
Depreciation – unallocated	85,425	87,971
Interest on long-term debt	<u>6,188</u>	<u>8,928</u>
<b>Total expenses</b>	<b><u>3,261,920</u></b>	<b><u>3,341,358</u></b>
<b>Change in net assets</b>	<b>(41,268)</b>	<b>(105,707)</b>
Net assets, beginning of year	<u>1,246,056</u>	<u>1,186,286</u>
<b>Net assets, end of year</b>	<b><u>\$ 1,204,788</u></b>	<b><u>\$ 1,080,579</u></b>

**Governmental activities.** Net assets decreased by \$105,707. Key elements of this decrease are as follows:

- ▶ Administrator placed on paid leave resulted in additional salary expense.
- ▶ Staff agreed to a salary and step freeze, but the retirement rate and cost of insurance continue to rise.
- ▶ Increase cost of fuel affected the cost of heat, transportation and supplies due to the new fuel surcharges. There was an exceptionally cold winter which increased the heating fuel usage in addition to the increased cost.

### **Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$189,668, a decrease of \$65,844 in comparison with the prior year. Approximately 94% (\$178,158) of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are either included in inventory and prepaids, or legally restricted for debt service expenditures, and are not available for current expenditures.

The general fund is the chief operating fund of the District, and represents the bulk of the District's unreserved fund balance. At the end of the current fiscal year, unreserved fund balance of the general fund was \$100,697. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 3 percent, or less than one month, of total general fund expenditures.

The fund balance of the District's general fund decreased by \$79,986 during the current fiscal year. The employees were given a bonus of 5% in an attempt to compensate them for taking a pay freeze for the last few years. This bonus along with the increased fuel cost and the additional administrative expenses incurred during this year account for the decrease in fund equity. The district was not aware of the additional administrative expenses when they offered the employees the bonus payments.

The building and site sinking fund incurred approximately \$14,147 in improvement projects during the year. An additional \$19,365 was transferred to the 2004 energy conservation improvement capital project fund to provide for capital improvements to the District's existing structures, and at June 30, 2008, the fund was left with a fund balance of 66,430.

## General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor in comparison to the overall budgeted amount. Once additional information was known, subsequent budget amendments recognized additional revenue. However, with the continued stagnation of the State's economy, reductions in the District's state aid and threats of even greater reductions in the future, the District pulled back on planned expenditures in an attempt to reduce the impact of current operations on the District's total fund balance.

## Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$1,136,319 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

### District's Capital Assets (net of depreciation)

Land	\$ 10,000
Building and Site Improvements	918,839
Machinery and Equipment	30,065
Vehicles	<u>177,415</u>
<b>Total</b>	<b><u>\$ 1,136,319</u></b>

Additional information on the District's capital assets can be found in note III.C of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$263,949.

Additional information on the District's long-term debt can be found in note III.F of this report.

## Factors Bearing on the District's Future

The following factors will affect the District in the future and were considered in preparing the District's budget for the 2008-2009 fiscal year:

- The State of Michigan continues to work on the revenue budget for 2008-2009, although our revenues have been increased by \$112.00 per pupil, the state also warns us to be prepared for a proration of those funds mid-year. We are also being very conservative with our categorical monies as they may be reduced this year.

- ▶ Health insurance related benefits increased 3% for the past year but due to the history (22% for 2004-05, 12% for 2005-06, and 7% for 2006-2007, 1% 2007-2008) over the past few years we are concerned for the future. Employees will have to continue contributing toward benefits.
- ▶ The district has experienced a steady decline in enrollment the past several years, largely due to social-economic conditions within the community. As we study the enrollment trends we note that the large classes of students are graduating in the next few years and the incoming elementary classes are very small; this is a grave concern to the district.

Preliminary enrollment for 2007-2008		Kindergarten	19
6 <sup>th</sup> grade	22	9 <sup>th</sup> grade	30
		1 <sup>st</sup> grade	19
7 <sup>th</sup> grade	23	10 <sup>th</sup> grade	34
		2 <sup>nd</sup> grade	29
8 <sup>th</sup> grade	28	11 <sup>th</sup> grade	41
		3 <sup>rd</sup> grade	21
<b>Average MS class size</b>	<b>24.33</b>	12 <sup>th</sup> grade	31
		4 <sup>th</sup> grade	22
		<b>Average HS Class size</b>	<b>34.0</b>
		5 <sup>th</sup> grade	24
		<b>Average Elem. class size</b>	<b>22.33</b>

Enrollment continues to create a major challenge for the 2008-2009 fiscal year as we will undoubtedly continue facing rising expenses with sluggish revenues. Such a combination will mean the District will need to be conservative in spending to avoid consuming the fund equity that they have all worked so hard to establish.

### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 13380 Waldron Road, Waldron, Michigan 49288.

## BASIC FINANCIAL STATEMENTS

## DISTRICT-WIDE FINANCIAL STATEMENTS

**WALDRON AREA SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2008**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Cash and cash equivalents	\$ 550,837
Receivables, net	497,620
Prepaid items and other assets	11,510
Capital assets not being depreciated	10,000
Capital assets being depreciated, net	<u>1,126,319</u>
 Total assets	 <u>2,196,286</u>
<b>Liabilities</b>	
Accounts payable and accrued expenses	780,308
Unearned revenue	71,450
Long-term liabilities:	
Due within one year	40,651
Due in more than one year	<u>223,298</u>
 Total liabilities	 <u>1,115,707</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	934,719
Restricted for:	
Other purposes	19,175
Unrestricted	<u>126,685</u>
 Total net assets	 <u><u>\$ 1,080,579</u></u>

The accompanying notes are an integral part of these financial statements.

**WALDRON AREA SCHOOLS**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 1,897,947	\$ -	\$ 296,103	\$ (1,601,844)
Supporting services	1,075,952	-	-	(1,075,952)
Athletics	102,509	13,639	1,053	(87,817)
Food service	153,904	54,448	94,266	(5,190)
Other functions	14,147	-	1,294	(12,853)
Interest on long-term debt	8,928	-	-	(8,928)
Unallocated depreciation	87,971	-	-	(87,971)
Total	<u>\$ 3,341,358</u>	<u>\$ 68,087</u>	<u>\$ 392,716</u>	<u>\$ (2,880,555)</u>

General revenues:

Property taxes	\$ 330,589
Unrestricted state aid	2,434,844
Unrestricted investment earnings	<u>9,415</u>
Total general revenues	<u>2,774,848</u>
Change in net assets	(105,707)
Net assets, beginning of year, as restated	<u>1,186,286</u>
<b>Net assets, end of year</b>	<u><u>\$ 1,080,579</u></u>

The accompanying notes are an integral part of these financial statements.



## FUND FINANCIAL STATEMENTS

# WALDRON AREA SCHOOLS

## Balance Sheet Governmental Funds June 30, 2008

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 482,586	\$ 68,251	\$ 550,837
Accounts receivable	1,985	-	1,985
Due from other government	475,376	20,259	495,635
Due from other funds	20,052	36,419	56,471
Inventory, at cost	-	8,144	8,144
Prepaid expenditures	3,366	-	3,366
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 983,365</u></b>	<b><u>\$ 133,073</u></b>	<b><u>\$ 1,116,438</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 570,240	\$ -	\$ 570,240
Salaries and benefits payable	201,193	7,157	208,350
Due to other funds	36,419	20,052	56,471
Deferred revenue	71,450	20,259	91,709
	<hr/>	<hr/>	<hr/>
Total liabilities	879,302	47,468	926,770
	<hr/>	<hr/>	<hr/>
<b>Fund balances</b>			
Reserved for inventory	-	8,144	8,144
Reserved for prepaid expenditure	3,366	-	3,366
Unreserved	100,697	-	100,697
Unreserved, undesignated, reported in			
Special Revenue Funds	-	11,031	11,031
Capital Projects Funds	-	66,430	66,430
	<hr/>	<hr/>	<hr/>
Total fund balances	104,063	85,605	189,668
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 983,365</u></b>	<b><u>\$ 133,073</u></b>	<b><u>\$ 1,116,438</u></b>

The accompanying notes are an integral part of these financial statements

**WALDRON AREA SCHOOLS**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2008**

Fund balances - total governmental funds	\$ 189,668
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	3,456,975
Deduct: accumulated depreciation	(2,320,656)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	20,259
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(130,259)
Deduct: loan payable	(91,600)
Deduct: accrued interest on bonds payable	(1,718)
Deduct: compensated absences	(42,090)

Net assets of governmental activities	<u><u>\$ 1,080,579</u></u>
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The accompanying notes are an integral part of these financial statements.

**WALDRON AREA SCHOOLS**  
**Statement of Revenue, Expenditure and Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Revenue</b>			
Local sources:			
Taxes	\$ 268,570	\$ 62,019	\$ 330,589
Food service	-	54,473	54,473
Athletics	-	14,692	14,692
Earnings on investments	9,378	1,331	10,709
Other local revenue	42,211	-	42,211
State sources:			
State school aid	2,439,787	9,235	2,449,022
Other	39,022	-	39,022
Federal sources	214,870	85,006	299,876
Total revenue	<u>3,013,838</u>	<u>226,756</u>	<u>3,240,594</u>
<b>Expenditures</b>			
Education:			
Instruction	1,896,366	-	1,896,366
Supporting services	1,092,703	-	1,092,703
Food service	-	153,684	153,684
Athletic activities	-	102,509	102,509
Capital outlay	-	14,147	14,147
Debt service:			
Principal repayments	22,900	15,000	37,900
Interest and fiscal charges	4,764	4,365	9,129
Total expenditures	<u>3,016,733</u>	<u>289,705</u>	<u>3,306,438</u>
Revenue over (under) expenditures	<u>(2,895)</u>	<u>(62,949)</u>	<u>(65,844)</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	96,466	96,466
Transfers (out)	(77,101)	(19,365)	(96,466)
Total other financing sources (uses)	<u>(77,101)</u>	<u>77,101</u>	<u>-</u>
Net change in fund balances	(79,996)	14,152	(65,844)
Fund balance, beginning of year, as restated	<u>184,059</u>	<u>71,453</u>	<u>255,512</u>
<b>Fund balance, end of year</b>	<u><u>\$ 104,063</u></u>	<u><u>\$ 85,605</u></u>	<u><u>\$ 189,668</u></u>

The accompanying notes are an integral part of these financial statements

**WALDRON AREA SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2008**

Net change in fund balances - total governmental funds	\$ (65,844)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	30,115
Deduct: depreciation expense	(87,971)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on deferred long-term receivables	(16,261)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	37,900
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds	201
Deduct: increase in the accrual for compensated absences	(3,847)

Change in net assets of governmental activities	\$ <u>(105,707)</u>
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The accompanying notes are an integral part of these financial statements.

**WALDRON AREA SCHOOLS**  
**General Fund**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2008**

	<b>Budget Amounts</b>		<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenue</b>				
Local sources	\$ 261,842	\$ 323,736	\$ 320,159	\$ (3,577)
State sources	2,389,321	2,438,554	2,478,809	40,255
Federal sources	163,948	204,220	214,870	10,650
Total revenue	2,815,111	2,966,510	3,013,838	47,328
<b>Expenditures</b>				
Instruction:				
Basic Programs:	1,271,700	1,405,000	1,362,654	(42,346)
Added needs:	520,646	460,330	533,712	73,382
Total Instruction	1,792,346	1,865,330	1,896,366	31,036
Supporting Services:				
Pupil services	60,488	69,600	96,756	27,156
Instructional Staff	70,229	63,770	13,431	(50,339)
General administration	75,845	95,812	96,338	526
School administration	194,733	222,236	225,013	2,777
Business services	108,545	123,975	127,232	3,257
Operation and maintenance	296,129	362,261	360,957	(1,304)
Pupil transportation services	178,449	167,653	172,976	5,323
Total Supporting Services	984,418	1,105,307	1,092,703	(12,604)
Debt Service:				
Principal	15,000	15,000	22,900	7,900
Interest	4,365	4,365	4,764	399
Total Debt Service	19,365	19,365	27,664	8,299
Total expenditures	2,796,129	2,990,002	3,016,733	26,731
Revenues over (under) expenditures	18,982	(23,492)	(2,895)	20,597
<b>Other financing sources (uses)</b>				
Transfers (out)	(133,978)	(107,655)	(77,101)	30,554
Net change in fund balance	(114,996)	(131,147)	(79,996)	51,151
Fund balance, beginning of year	184,059	184,059	184,059	-
<b>Fund balance, end of year</b>	<b>\$ 69,063</b>	<b>\$ 52,912</b>	<b>\$ 104,063</b>	<b>\$ 51,151</b>

The accompanying notes are an integral part of these financial statements.

**WALDRON AREA SCHOOLS**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2008**

	<u>Agency Fund</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$      78,070</u>
<b>Liabilities</b>	
Deposits held for others	<u>\$      78,070</u>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS



# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

The Waldron Area Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

The *special revenue funds* account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for food service and athletics activities.

The *debt service funds* accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### **D. Assets, liabilities and equity**

#### **1. *Cash and cash equivalents/investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

#### **2. *Receivables and payables***

All trade receivables are shown at full face value. There is no allowance for uncollectibles at June 30, 2008.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. *Inventory and prepaid items*

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the Food Service Special Revenue Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute “available spendable resources” even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### 4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Vehicles	4-12
Equipment	5-20

### 5. *Compensated absences*

It is the District’s policy to permit employees to accumulate earned but unused sick days. The amount is based on years of service and the number of sick days accumulated. The employee must be employed by the District for 10 years and retire under the Michigan Public School Employees Retirement System to receive their payout.

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### **6. *Long-term obligations***

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

### **7. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budget for the General Fund is adopted on a functional basis, and the budgets for Special Revenue Funds are adopted on a fund basis. Variances in the general fund are disclosed on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual.

### **B. Fund Deficit**

The Athletics Special Revenue fund had a fund deficit of \$1,069 at June 30, 2008. The District plans to eliminate the deficit in 2008-2009 by an additional appropriation from the General Fund.

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Checking/savings deposit accounts	On demand	\$456,777	Not applicable
Government liquid asset funds	On demand	<u>172,130</u>	AAA
<b>Total</b>		<b><u>\$628,907</u></b>	

The rating for the government liquid asset fund above is from Standard & Poors.

#### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. There are no maturity dates for the investments held at year end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for the investment is identified above for the investment held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$419,289 of the District's bank balance of \$533,299 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The District's investment policy includes provisions that authorized institutions must meet certain eligibility requirements, including a requirement that the institution must be capitalized at no less than \$10,000,000. The investment listed above is not subject to custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the District's investments are in government liquid asset funds. All investments held at year end are reported above.

### B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<b>General Fund</b>	<b>Nonmajor Funds</b>	<b>Total</b>	<b>Amounts Not Expected to be Collected Within One Year</b>
<b>Receivables:</b>				
Accounts	\$ 1,985	\$ -	\$ 1,985	\$ -
Intergovernmental	475,376	20,259	495,635	17,508
	<b>\$ 477,361</b>	<b>\$ 20,259</b>	<b>\$ 497,620</b>	<b>\$ 17,508</b>

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

### C. Capital assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital assets being depreciated:				
Buildings and improvements	2,948,345	12,847	-	2,961,192
Vehicles	304,972	-	-	304,972
Equipment	153,226	17,268	-	170,494
Total capital assets being depreciated	3,406,543	30,115	-	3,436,658
Less accumulated depreciation for:				
Buildings and improvements	1,980,106	62,247	-	2,042,353
Vehicles	109,496	18,061	-	127,557
Equipment	132,766	7,663	-	140,429
Total accumulated depreciation	2,222,368	87,971	-	2,310,339
Total capital assets being depreciated, net	1,184,175	(57,856)	-	1,126,319
<b>Governmental activities capital assets, net</b>	<b>\$ 1,194,175</b>	<b>\$ (57,856)</b>	<b>\$ -</b>	<b>\$ 1,136,319</b>

Depreciation expense of \$87,971 was charged to the function "unallocated depreciation", and not allocated to the other functions.



# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

### D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Fund Financial Statements:</b>			
Accounts payable	\$ 570,240	\$ -	\$ 570,240
Salaries and retirement payable	<u>201,193</u>	<u>7,157</u>	<u>208,350</u>
	<u><b>\$ 771,433</b></u>	<u><b>\$ 7,157</b></u>	<u><b>778,590</b></u>
<b>District-Wide Financial Statements:</b>			
Accrued interest on long-term debt			<u>1,718</u>
			<u><b>\$ 780,308</b></u>

### E. Interfund receivables, payables and transfers

At June 30, 2008, interfund receivables and payables consisted of the following:

	<u>Due to</u>	<u>Due from</u>
General Fund	\$ 36,419	\$ 20,052
Nonmajor funds	<u>20,052</u>	<u>36,419</u>
	<u><b>\$ 56,471</b></u>	<u><b>\$ 56,471</b></u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2008, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 77,101	\$ -
Nonmajor governmental funds	<u>19,365</u>	<u>96,466</u>
	<u><b>\$ 96,466</b></u>	<u><b>\$ 96,466</b></u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, the District transferred funds to subsidize the athletics program, and to transfer funds from a capital project fund to a debt service fund.

### F. Long-term debt

The following is a summary of debt outstanding of the District for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
1998 Durant	\$ 20,259	\$ -	\$ -	\$ 20,259	\$ 2,751
Energy Bonds	125,000	-	15,000	110,000	15,000
Bus Notes	<u>114,500</u>	<u>-</u>	<u>22,900</u>	<u>91,600</u>	<u>22,900</u>
Subtotal	259,759	-	37,900	221,859	40,651
Sick Leave payable	<u>38,243</u>	<u>3,847</u>	<u>-</u>	<u>42,090</u>	<u>-</u>
	<u><b>\$ 298,002</b></u>	<u><b>\$ 3,847</b></u>	<u><b>\$ 37,900</b></u>	<u><b>\$ 263,949</b></u>	<u><b>\$ 40,651</b></u>

Sick pay is vested and accumulative. Upon resignation or retirement, the employee will be paid their unused sick days at the rate of \$25 or \$50 per day, respectively.

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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Bonds, notes, and leases payable at June 30, 2008, are comprised of the following individual issues:

**General Obligation Bonds –**

\$49,428 1998 Durant Bond for school improvements,  
due in annual installments of \$2,751 to \$8,151,  
through May 15, 2013 **\$ 20,259**

\$170,000 1994 Energy Conservation Improvement Bonds,  
due in annual installments of \$15,000 to \$20,000,  
through May 1, 2014 **\$ 110,000**

**Bus Note –**

School bus note – County National Bank, due in annual  
installments of \$22,900 through April 1, 2012,  
2.49% interest **\$ 91,600**

The 1998 Durant debt is serviced from funds made available to the local Districts by an annual appropriation from the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable for the amount due.

The annual requirements to amortize all debt outstanding as of June 30, 2008, excluding sick leave payable, are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	40,651	7,526	48,177
2010	40,782	6,919	47,701
2011	51,051	7,101	58,152
2012	46,062	3,468	49,530
2013	23,313	1,638	24,951
2014	20,000	740	20,740
	<u><b>\$ 221,859</b></u>	<u><b>\$ 27,392</b></u>	<u><b>\$ 249,251</b></u>

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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### IV. OTHER INFORMATION

#### A. Risk management

During the normal course of its operations, the District is exposed to various risks of loss related to liability, employee injury and other circumstances. In all instances, the District has retained coverages through commercial insurance carriers.

There were no significant reductions in insurance coverage from the prior year, and no insurance settlements have exceeded coverage in the past three years.

#### B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by township governments whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties involved.

#### C. Defined benefit pension plan

##### Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

##### Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. Waldron Area Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

# WALDRON AREA SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

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The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and Waldron Area Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$286,585, \$293,360 and \$282,511, respectively, equal to the required contributions for each year.

### **Other Postemployment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

### **D. Contingencies**

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2008.

### **E. Restatement**

The general fund balance was reduced by \$18,502 at July 1, 2007 in order to correctly state accrued interest on a state aid note.

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**COMBINING and INDIVIDUAL FUND  
FINANCIAL STATEMENTS**

**WALDRON AREA SCHOOLS****Nonmajor Governmental Funds****Combining Balance Sheet****June 30, 2008**

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>School Lunch</u>	<u>Athletic Activities</u>	<u>Durant</u>	<u>Energy Conservation</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash	\$ 682	\$ 1,139	\$ -	\$ -
Due from other governmental units	-	-	20,259	-
Due from other funds	36,419	-	-	-
Inventory, at cost	8,144	-	-	-
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 45,245</u></b>	<b><u>\$ 1,139</u></b>	<b><u>\$ 20,259</u></b>	<b><u>\$ -</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Salaries and benefits payable	\$ 4,949	\$ 2,208	\$ -	\$ -
Due to other funds	20,052	-	-	-
Deferred revenue	-	-	20,259	-
Total liabilities	25,001	2,208	20,259	-
<b>Fund balances</b>				
Reserved for inventory	8,144	-	-	-
Unreserved and undesignated (deficit)	12,100	(1,069)	-	-
Total fund balances (deficit)	20,244	(1,069)	-	-
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 45,245</u></b>	<b><u>\$ 1,139</u></b>	<b><u>\$ 20,259</u></b>	<b><u>\$ -</u></b>

<b>Capital Projects</b>	
<b>Building and Site</b>	<b>Total</b>
\$ 66,430	\$ 68,251
-	20,259
-	36,419
-	8,144
<b>\$ 66,430</b>	<b>\$ 133,073</b>

\$ -	\$ 7,157
-	20,052
-	20,259
-	47,468

-	8,144
66,430	77,461
66,430	85,605

<b>\$ 66,430</b>	<b>\$ 133,073</b>
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**WALDRON AREA SCHOOLS**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenue,**  
**Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2008**

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>School Lunch</u>	<u>Athletic Activities</u>	<u>Durant</u>	<u>Energy Conservation</u>
<b>Revenue</b>				
Local sources:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Food service revenue	54,473	-	-	-
Athletic revenue	-	14,692	-	-
Interest	-	37	-	-
Total local sources	54,473	14,729	-	-
State sources	9,235	-	-	-
Federal sources	85,006	-	-	-
Total revenue	148,714	14,729	-	-
<b>Expenditures</b>				
Current:				
Salaries and benefits	88,900	72,693	-	-
Purchased services	891	23,937	-	-
Supplies, materials and other	63,893	5,879	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	15,000
Interest and fiscal charges	-	-	-	4,365
Total expenditures	153,684	102,509	-	19,365
Revenue over (under) expenditures	(4,970)	(87,780)	-	(19,365)
<b>Other financing sources</b>				
Transfer in	-	77,101	-	19,365
Transfer (out)	-	-	-	-
Total other financing sources (uses)	-	77,101	-	19,365
Net change in fund balances	(4,970)	(10,679)	-	-
Fund balance, beginning of year	25,214	9,610	-	-
<b>Fund balance (deficit), end of year</b>	<b>\$ 20,244</b>	<b>\$ (1,069)</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Capital Projects</b>	
<b>Building and Site</b>	<b>Total</b>
\$ 62,019	\$ 62,019
-	54,473
-	14,692
1,294	1,331
63,313	132,515
-	9,235
-	85,006
63,313	226,756
-	161,593
-	24,828
-	69,772
14,147	14,147
-	15,000
-	4,365
14,147	289,705
49,166	(62,949)
-	96,466
(19,365)	(19,365)
(19,365)	77,101
29,801	14,152
36,629	71,453
<b>\$ 66,430</b>	<b>\$ 85,605</b>

**WALDRON AREA SCHOOLS**  
**Agency Funds - Student Activity Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2008**

	<b>Balances - End of Year</b>
	<hr/>
<b><u>ASSETS</u></b>	
Cash and Investments	<b>\$ 78,070</b>
	<hr/>
<b><u>LIABILITIES</u></b>	
Deposits Held for Others:	
Athletic Scholarships	\$ 30
Band	2,873
Baseball	5
Basketball - Girls	(480)
Basketball Fund	8,918
Board Memorial	(18)
Cheerleading	(107)
Class of:	
2008	565
2009	6,884
2010	12,068
2011	8,810
2012	2,249
2013	1,991
2014	1,111
Cooks	94
DC Students Elementary	3,363
District Tournament	656
Drama Club	1,546
Elementary Music	1,247
Elementary Account	5,813
Elementary Science Grant	3
FFA	6,069
Football Coaches	5,803
Home Ec Grant	75
Jean Day	80
Jr. High Concessions	293
Jr. High Student Council	33
Library Account	554
Miscellaneous	183
National Honor Society	437
Parent Teacher Team	2,246
PR Committee	330
Quiz Bowl	502
Softball Account	127
Spirit Club	81
Student Account	3,544
Student Council	209
Table & Chair Donation	49
Technology Account	49
Track	1,138
Volleyball	2,310
Yearbook	(3,663)
	<hr/>
<b><u>TOTAL LIABILITIES</u></b>	<b>\$ 78,070</b>
	<hr/>



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

October 31, 2008

Board of Education  
Waldron Area Schools  
Waldron, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **WALDRON AREA SCHOOLS** as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Waldron Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

## **Significant Deficiencies**

### **2008-1 Segregation of Duties**

**Criteria:** Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets.

**Condition:** The District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting functions.

**Effect:** Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the asset resulting from the transaction.

**Recommendation:**

We recommend the District develop internal control procedures to strengthen its internal control by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

**View of responsible**

**Official:** The client strives to have as much separation of duties as possible in a small office. Periodically, the District does a cost benefit analysis of providing another person to increase the separation of duties, and currently believes it is not cost effective at this time to add additional personnel in light of flat revenue sources.

### **2008-2 – Preparation of Financial Statements in Accordance with GAAP**

**Criteria:** The preparation of financial statements in accordance with GAAP is the responsibility of the District's management and requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting financial statements including the related footnotes (i.e., external financial reporting.)

- Condition:** As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the District's internal controls.
- Cause:** This condition was caused by management's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.
- Effect:** As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible  
Officials:**

The District has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we did not consider the significant deficiencies described above to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Waldron Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described above. We did not audit the response and, accordingly, we express no opinion on it

This report is intended solely for the information and use of management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
UNDER SAS NO. 114**

October 31, 2008

To the Board of Education  
Waldron Area Schools

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Waldron Area Schools* (the “District”) for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated July 10, 2008 our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the *District*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of *District's* compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 14, 2008.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the *District* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

- The financial statements may be affected by unusual transactions, including nonrecurring transactions. We noted no unusual or nonrecurring transactions.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.



*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 31, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Waldron Area Schools* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

# **Waldron Area Schools**

## **Comments and Recommendations**

**For the Year Ended June 30, 2008**

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In planning and performing our audit of the financial statements of the Waldron Area Schools (the "District") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The significant deficiencies referenced above were not considered to be material weaknesses.

### **Other Matters**

#### **Purchase Order System**

The District has a policy of using purchase orders for procurement of supplies and services. However, we noted that purchase orders are used only on a sporadic basis. In order to preserve the integrity of the purchase order system, we suggest that purchase orders be used on all purchases, or modify the policy to exempt certain purchases.

# **Waldron Area Schools**

## **Comments and Recommendations (Concluded)**

**For the Year Ended June 30, 2008**

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### **Payroll Review**

Presently, all payroll functions are performed by the Business Manager, including distribution of checks. We recommend that the final payroll register be subject to final approval by someone other than the Business Manager before payroll checks are issued. We recommend that the reviewer of the payroll register initial and date the register of each current pay before payroll is finalized in order to enhance the internal controls in this area.

\* \* \* \* \*